United Whelan Corporation

Annual Report

1964

UNITED WHELAN CORPORATION

Executive and General Offices: **902 Broadway, New York, N. Y. 10010**

Warehouse

82 39th Street, Brooklyn, N. Y. 11232

Board of Directors

Leo Bertisch	William L. Pfeiffer
Charles Green	Ted M. Segal
J. Raymond McGovern	Harry T. Silverman

Officers

Charles Green ..... *Chairman of the Board*

Leo Bertisch ..... *President*

Alvah K. Parent ..... *Vice President and Secretary*

Herman H. Goldstein ..... *Vice President*

Charles J. Sewall ..... *Treasurer*

Ann L. Reilly ..... *Assistant Secretary*

Helen M. Winfield ..... *Assistant Treasurer*

March 30, 1965

To Our Stockholders:

Review of 1964 Operations:

The Whelan Division has been faced with drastic cut-rate competition on nationally known merchandise in most cities in which we operate stores, which situation seriously affected our operating profits.

In May 1964 we sold our last store in Los Angeles and now have no operating stores in California.

In September 1964 we terminated our Chicago agency operations, which resulted in the closing of our Chicago office and warehouse.

In October 1964 we disposed of our Florida subsidiary operations. We were doing a substantial amount of volume and had a substantial amount of money invested but at no return whatsoever to the parent company.

We have also eliminated four stores located in our prime trading areas where leases were expiring and we could not re-negotiate "no percentage" leases or more reasonable rents with our landlords. The leases we had been operating under made it impossible to operate profitably.

The Charles Stores Division, conventional junior department stores as well as one-stop shopping centers, did not produce the profits we anticipated, primarily because of new and extensive competition in our trading areas and the social unrest in the southern communities where these stores are situated. During the year we opened one 87,400 square foot "One-Stop Shopping Center" store in Winston-Salem, North Carolina, and closed two conventional stores. All expenses incurred in the opening and closing of these stores were charged to operating losses. In addition, it would be difficult to relate to you the increased overhead, due to various taxes, fringe benefits, wage increases and severances, that we have been forced to absorb during the last year. We would say, without hesitation, that these increased expenses prevented the Corporation from improving the results of its operations over the preceding year.

Sun Ray Matter:

During 1964 your Corporation sought to expand and improve its drug operations by the acquisition of approximately 65 Sun Ray drug stores. At first a merger was planned with Consolidated Sun Ray, Inc. However, this was not consummated because of various problems which arose concerning other than the drug store portion of Sun Ray's business. An agreement was then made to acquire only the Sun Ray drug stores.

The acquisition of the Sun Ray drug stores was never completed. Various disputes arose between the parties which resulted in a number of law suits and counter suits. However, because of the inherent expense, delay and risk involved in litigation your directors resolved all matters with Consolidated Sun Ray, Inc.'s management. Thereupon, all claims against your Corporation were dropped, all moneys owed to your Corporation by Sun Ray were repaid and your Corporation's expenses in connection with the abandoned merger and the abandoned acquisition of the Sun Ray drug stores were reimbursed.

Changes in Organization:

We had several executive changes during 1964, as well as the early part of this year. Mr. Oscar C. Weitzberg, Administrative Vice President, Mr. Morton Bertisch, Treasurer, and Mr. Morris Savatsky, Controller, resigned to take em-

ployment in other businesses. Their resignations were accepted with regret by the Board of Directors.

Mr. Charles J. Sewall, who has been with our Corporation for the past 27 years and for the past 14 years has been Assistant Secretary and Assistant Treasurer, has been elected Treasurer by the Board of Directors.

Miss Ann L. Reilly was appointed Assistant Secretary and Miss Helen M. Winfield Assistant Treasurer by the Board of Directors.

Plans for the year 1965:

There are no plans for expansion of the Charles Stores Division at the present time.

It has been decided to make our emphasis in all operating stores of the Whelan Division on sundries and Whelan private brand merchandise so that we will not be forced to sell merchandise at cost or a loss. How successful our efforts in our private brand venture will be we do not know. However, our plan is to expend greater effort in both store displays and newspaper advertising, as well as house-to-house circulars, to try to make our customers more conscious of our products which, in every case, are equally as good as manufacturers' comparable products, priced competitively cheaper, and still can afford us a reasonable gross profit.

It is hoped that we can find new locations for Whelan Drug Stores in the near future at flat rentals without percentages. No openings are planned at this time.

We plan to institute several organizational changes that will improve the efficiency and operations at both the administrative and store levels of our Charles and Whelan Divisions. We are hopeful that these changes will result in substantial reductions in our overhead costs.

Although we are concentrating on the improvement of our present operations, attention is being given to other areas for investment that will enhance the earning power of our company.

Re-acquisition of Preferred and Common Stock:

During the past year we re-acquired 5,642 shares of our Preferred Stock having a par value of $564,200 at a cost of $394,959. We re-acquired 97,807 shares of our Common Stock having a book value (as of January 2, 1965) of $689,539 at a cost of $471,595.

Our Board of Directors deemed it advisable to re-acquire this stock inasmuch as we had an excess of working capital that was not necessary for the operation of the business at that time. The amounts used to re-acquire this stock were part of the money we received from the liquidation of our Florida operations.

To our stockholders, executives and employees we express our sincere appreciation for their patience and consideration.

This report is submitted on behalf of the Board of Directors.

Charles Green
Chairman of the Board

Leo Bertsch
President

BRIEF COMPARATIVE HIGHLIGHTS

	Year ended January 2, 1965	Year ended December 31, 1963
Sales and shipments to agents	$43,716,565	$44,909,046
Net (loss) before Federal income tax credit/refund	(695,042)	(480,086)
Federal income tax credit/refund	142,780	170,000
Net (loss)	(552,262)	(310,086)
(Loss) per share (Common)	(46¢)	(25¢)
Book value of Common Stock	$7.05	$8.15
Shares of Common Stock outstanding at end of year	1,257,915	1,355,722
Ratio of Current Assets to Current Liabilities	3.1 to 1	3.0 to 1
Units in operation:		
United Whelan stores	67	92
United Whelan agencies	291	355
Charles Stores	27	28

During the current year, the Corporation charged earned surplus in the amount of $1,300,000 (equivalent to $1.03 per share of Common Stock), representing a provision for presently estimated future losses on leased properties not used for store operations.

UNITED WHELAN CORPORATIO

COMPARATIVE CONSOL

As at January 2, 1965

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ASSETS

	January 2, 1965	December 31, 1963
CURRENT ASSETS:		
Cash	$ 2,772,042	$ 3,215,807
Accounts and notes receivable, and merchandise shipments to agents, less reserves—Note B	940,508	1,145,101
Receivables from disposition of Florida stores and settlement with "Sun Ray"—approximately $847,000 collected to March 30, 1965; balance held by escrow agent	1,045,592	
Refundable Federal income taxes		170,000
Inventories of merchandise and supplies, at cost or market whichever is lower	6,112,453	8,294,601
Prepaid insurance, taxes and rent	179,533	268,681
TOTAL CURRENT ASSETS	11,050,128	13,094,190
OTHER ASSETS:		
Merchandise shipments to agents—Note B	62,500	123,725
Notes and accounts receivable due after one year, etc.	114,711	78,530
	177,211	202,255
FIXED ASSETS, at cost or less:		
Land, building and building improvements	114,599	114,599
Furniture, fixtures and equipment (includes approximately $1,650,000 and $2,000,000, on which depreciation provided is equal to asset)	4,613,297	5,265,142
	4,727,896	5,379,741
Less: Depreciation	2,939,480	3,432,926
	1,788,416	1,946,815
Improvements to leaseholds, less amortization	1,072,145	1,354,898
	2,860,561	3,301,713
DEFERRED CHARGES	80,414	88,044
	$14,168,314	$16,686,202

The accompanying notes are a

AND SUBSIDIARY COMPANIES

ATED BALANCE SHEET

d December 31, 1963

A)

LIABILITIES

	January 2, 1965	December 31, 1963
CURRENT LIABILITIES:		
Accounts payable	$ 2,345,017	$ 3,007,484
Taxes accrued and withheld, other than Federal income taxes	596,561	716,993
Accrued expenses and other liabilities	579,574	602,342
TOTAL CURRENT LIABILITIES	3,521,152	4,326,819
DEFERRED CREDIT—Note C	36,560	161,960
DEFERRED FEDERAL INCOME TAXES		142,780
RESERVE FOR LOSSES ON LEASED PROPERTIES NOT USED FOR STORE OPERATIONS—Note D	1,300,000	
CAPITAL STOCK AND SURPLUS—Note E:		
Capital Stock:		
Convertible Preferred Stock, par value $100.00 a share, $3.50 dividend cumulative (each share exchangeable for four shares of Common Stock):		
Authorized —50,000 shares		
Issued — 4,402 shares and 10,467 shares	440,200	1,046,700
Common Stock, par value 30¢ a share:		
Authorized —3,000,000 shares		
Issued —2,307,388 shares	692,216	692,216
Capital Surplus	6,361,411	6,179,958
Earned Surplus	7,142,501	9,019,986
	14,636,328	16,938,860
Less: Treasury stock, at cost—20 shares and 443 shares Convertible Preferred Stock and 1,049,473 shares and 951,666 shares Common Stock	5,325,726	4,884,217
	9,310,602	12,054,643
LONG-TERM LEASES, CONTINGENCIES AND OTHER COMMENTS—Notes F and G		
	$14,168,314	$16,686,202

integral part of this statement.

UNITED WHELAN CORPORATION AND SUBSIDIARY COMPANIES

COMPARATIVE CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

For the Years Ended January 2, 1965 and December 31, 1963 (Note A)

	Year ended January 2, 1965	Year ended December 31, 1963
Net sales and shipments to agents—Note B	$43,716,565	$44,909,046
Cost of goods sold and cost of shipments to agents (including certain occupancy, warehousing and buying expenses), exclusive of depreciation and amortization—Note G	34,486,593	35,253,263
	9,229,972	9,655,783
Selling, general and administrative expenses, exclusive of depreciation and amortization—Note G	9,367,940	9,795,188
	(137,968)	(139,405)
Depreciation and amortization (exclusive of amounts applicable to real estate operations)	537,441	501,240
	(675,409)	(640,645)
Other income:		
Gain on sales of securities	8,046	227,770
Dividends and interest	18,515	32,590
Miscellaneous	132,911	46,441
	159,472	306,801
	(515,937)	(333,844)
Other deductions:		
Loss from real estate operations (including depreciation and amortization of $36,035 and $49,656)—Note G	108,875	94,031
Discount store pre-opening expenses	49,119	100,254
Miscellaneous (including, in 1964, $96,370 loss on disposition of Florida stores)	146,511	77,357
	304,505	271,642
	(820,442)	(605,486)
Amortization of excess of equity in net assets of a consolidated subsidiary company over investment therein—Note C	125,400	125,400
Net (loss) before Federal income tax credit/refund	(695,042)	(480,086)
Federal income tax credit/refund—Note F	142,780	170,000
Net (loss)	(552,262)	(310,086)
Earned Surplus as at beginning of year	9,019,986	9,365,355
	8,467,724	9,055,269
Provision for losses on leased properties not used for store operations—Note D	1,300,000	
Dividends on Convertible Preferred Stock	25,223	35,283
	1,325,223	35,283
Earned Surplus as at end of year	$ 7,142,501	$ 9,019,986

Red figures are denoted by brackets.

The accompanying notes are an integral part of this statement.

UNITED WHELAN CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

As at January 2, 1965

GENERAL—Reference should be made to the previously issued Annual Report for the Accountants' Report (which contained a qualification of opinion with respect to the income tax matter referred to in Note F) and notes applicable to the consolidated financial statements as at December 31, 1963 and for the year then ended. Certain items in those statements have been reclassified for the purpose of comparison.

NOTE A—CHANGE IN FISCAL YEAR:

In 1964, the Corporation adopted a fiscal year ending on the Saturday closest to the calendar year-end.

NOTE B—MERCHANDISE SHIPMENTS TO AGENTS:

In accordance with the Corporation's established policy, net sales and shipments to agents, as shown in the accompanying consolidated statement of income and earned surplus, include amounts representing merchandise shipments to certain agents who operate retail outlets, ownership of which merchandise, under the terms of the agency agreements, remains with the Corporation until the merchandise is sold by the agents. Amounts owing by such agents for merchandise sold as at January 2, 1965, and the accountability of such agents as at that date for unsold shipments of merchandise (other than initial inventory allowances) together total $320,571, which amount is included in the accompanying consolidated balance sheet under Current Assets in "Accounts and notes receivable, and merchandise shipments to agents, less reserves." The initial inventory allowances, for which agents are not required to make settlement until the termination of the agency, are included under Other Assets.

NOTE C—DEFERRED CREDIT:

On April 15, 1960 the Corporation acquired all of the outstanding capital stock of Charles Stores Company, Incorporated. The excess of the underlying book equity as at the date of acquisition over the Corporation's investment therein (less costs applicable principally to closed stores) has been treated in the Corporation's consolidated financial statements as a "Deferred Credit." The latter is being credited to income ratably over five years from April 15, 1960, such period representing the approximate weighted average of the then remaining terms of the subsidiary's store leases.

NOTE D—PROVISION FOR LOSSES ON LEASED PROPERTIES NOT USED FOR STORE OPERATIONS:

Under its program of eliminating unprofitable operations in certain areas in order to concentrate its efforts in its prime marketing areas, the Corporation, during the year, (1) terminated operations in approximately 27% of the drug stores open at the beginning of the year, including the termination of operations of all of its stores and its warehouse facilities in Florida and the closing of its last store in California, and (2) terminated approximately 20% of its agency arrangements. In view of the significant measures taken in 1964 in contracting store operations, the management has concluded that it is desirable at this time to make a provision of $1,300,000 (charged to Earned Surplus) for presently estimated future losses applicable to leases on locations where operations have been discontinued, to the extent present circumstances do not indicate a recovery of such losses through subrentals or a store expansion program as to which there are no immediate plans.

NOTE E—CAPITAL STOCK AND SURPLUS:

During the current year, the Corporation (1) purchased for its treasury 5,642 shares of Convertible Preferred Stock and 97,807 shares of Common Stock and (2) retired

6,065 shares of Convertible Preferred Stock held in treasury. The excess ($181,453) of the par value of the Convertible Preferred Stock retired over the cost thereof was credited to Capital Surplus.

NOTE F—TAXES:

The Corporation is presently protesting the Internal Revenue Service's proposed disallowance of deductions taken in the Corporation's 1959, 1960 and 1961 consolidated Federal income tax returns for post-acquisition losses of Crawford Clothes, Inc. ("Crawford"), a former subsidiary. The proposed disallowance is based upon the contention of the Internal Revenue Service that the principal purpose of the acquisition of Crawford was tax evasion or avoidance. It is the opinion of the Corporation's counsel, based upon their discussions of the facts surrounding the acquisition with various officers and directors of the Corporation, and upon their examination of relevant documents and records made available to them, that tax evasion or avoidance was not the principal purpose of the acquisition and that the Corporation should be entitled to the deduction of the subsidiary's losses in such consolidated returns. Accordingly, no provision for the proposed tax deficiency (approximately $2,000,000), or interest thereon, has been made in the accompanying financial statements. The accompanying financial statements are subject to final determination of Federal, state and local taxes.

NOTE G—LONG-TERM LEASES, CONTINGENCIES AND OTHER COMMENTS:

The Corporation and its subsidiaries in the ordinary course of business lease substantially all store properties. At January 2, 1965 there were 104 leases expiring after that date for which the aggregate minimum annual rentals were approximately $1,800,000, excluding the leases referred to in Note D. The majority of the leases provide for additional rentals based upon percentages of sales in excess of predetermined bases and upon other factors. Cost of goods sold and cost of shipments to agents, selling general and administrative expenses and loss from real estate operations include rent expense of $2,021,764, $83,825 and $256,168 for the year ended January 2, 1965 and $2,086,220, $83,172 and $242,822 for 1963.

In connection with a pending action by a minority stockholder against the Corporation and others to enjoin a proposed purchase of the "Sun Ray" stores, a claim has been made against the Corporation for attorney's fees in the amount of $163,500. Such proposed purchase was not consummated. In the opinion of Corporation's counsel, the aforementioned claim is without merit.

The Corporation is contingently liable with respect to the guarantee of another's obligation approximating $136,000.

ACCOUNTANTS' REPORT

To the Stockholders
UNITED WHELAN CORPORATION
New York, N. Y.

We have examined the consolidated balance sheet of United Whelan Corporation and subsidiary companies as at January 2, 1965, and the related consolidated statement of income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined the consolidated financial statements of the companies as at December 31, 1963 and for the year then ended (see General Note).

In our opinion, subject to the outcome of the income tax matter referred to in Note F (the treatment of which matter as reflected in the aforementioned financial statements and the related notes we nevertheless approve), the accompanying consolidated balance sheet and consolidated statement of income and earned surplus, together with the notes to financial statements, present fairly the consolidated financial position of United Whelan Corporation and subsidiary companies at January 2, 1965, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LEIDESDORF & CO.

New York, N. Y.
March 30, 1965

COUNSEL

ARANOW, BRODSKY, BOHLINGER, EINHORN & DANN, New York, N. Y.

TRANSFER AGENT

Convertible Preferred Stock and Common Stock
The Marine Midland Trust Company of New York, New York, N. Y.

REGISTRAR

Convertible Preferred Stock and Common Stock
Chemical Bank New York Trust Company, New York, N. Y.